SASKPOWER INTERNATIONAL

A SUBSIDIARY OF SASKPOWER | **FINANCIAL STATEMENTS 2007**

REPORT OF *MANAGEMENT*

The consolidated financial statements of **SaskPower International Inc.** are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of consolidated financial statements necessarily involves the use of estimates based on management's best judgement, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. In management's opinion, the consolidated financial statements have been properly prepared within the framework of selected accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, information available up to February 8, 2008.

Management maintains appropriate systems of internal control which provide reasonable assurance that the Corporation's assets are safeguarded and appropriately accounted for, that financial records are relevant, reliable and accurate and that transactions are executed in accordance with management's authorization. This system includes corporate-wide policies and procedures, as well as the appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these controls on an ongoing basis and reports its findings to management and the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board reviews audit, internal control and financial reporting matters with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities. The consolidated financial statements and the external auditors' report are approved by the Board of Directors. The internal and external auditors have full and open access to the Board of Directors, with and without the presence of management.

The consolidated financial statements have been examined by Deloitte & Touche LLP, Chartered Accountants. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The auditors' report, which follows, outlines the scope of their examination and sets forth their opinion.

On behalf of management,

Garner Mitchell

Garner Mitchell
Acting President and Chief Executive Officer
February 8, 2008

Debbie Kajati

Debbie Kajati
Manager, Finance and Administration

AUDITORS' *REPORT*

To the Members of the Legislative Assembly of Saskatchewan

We have audited the consolidated statement of financial position of SaskPower International Inc. as at December 31, 2007, and the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive income (loss) and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Regina, Saskatchewan
February 8, 2008

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(in thousands)

For the year ended December 31	2007	2006
Revenue		
Electricity sales	**$ 18,539**	$ 18,573
Finance income *(Note 6)*	**13,396**	10,915
Flyash sales	**6,276**	4,935
Wind power production incentive	**5,396**	4,260
Other	**264**	61
Total revenue	**43,871**	38,744
Expense		
Cost of sales – flyash	**4,085**	3,189
Operating, maintenance and administration	**5,632**	6,159
Depreciation	**4,634**	4,611
Finance charges	**17,242**	15,794
Saskatchewan capital tax	**791**	1,161
Total expense	**32,384**	30,914
Income before equity investment income	**11,487**	7,830
Equity investment income	**7,335**	8,449
Net income	**18,822**	16,279
Retained earnings, beginning of year	**1,819**	1,840
Change in accounting policy *(Note 3)*	**(227)**	–
Dividends	**(17,000)**	(16,300)
Retained earnings, end of year	**$ 3,414**	$ 1,819

See accompanying notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands)

As at December 31	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 22,150	$ 25,665
Accounts receivable	8,496	8,308
Current portion of net investment in lease *(Note 6)*	5,286	5,034
Other	764	805
	36,696	39,812
Property, plant and equipment *(Note 4)*		
Property, plant and equipment	139,314	138,596
Less: accumulated depreciation	22,536	17,943
	116,778	120,653
Other assets		
Equity investment *(Note 5)*	30,065	31,814
Net investment in lease *(Note 6)*	221,916	224,091
Other assets	–	1,802
	251,981	257,707
Total assets	$ 405,455	$ 418,172
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities *(Note 7)*	$ 6,674	$ 8,508
Short-term debt from SaskPower *(Note 8)*	222,392	230,911
Interest rate swap *(Note 12)*	51	–
Current portion of non-recourse long-term debt *(Note 9)*	3,380	3,080
Dividends payable	17,000	16,300
	249,497	258,799
Non-recourse long-term debt *(Note 9)*	81,798	86,760
Asset retirement obligation *(Note 10)*	718	677
Total liabilities	332,013	346,236
Equity		
Share capital *(Note 11)*	70,117	70,117
Retained earnings	3,414	1,819
Accumulated other comprehensive loss	(89)	–
Total equity	73,442	71,936
Total liabilities and equity	$ 405,455	$ 418,172

Commitments and contingencies *(Note 17)*

See accompanying notes

On behalf of the Board:

Joel Teal
Chair

Bill Wheatley
Vice-chair

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands)

For the year ended December 31	2007	2006
Net income	**$ 18,822**	$ 16,279
Other comprehensive loss:		
Net loss on interest rate swaps	**(3)**	–
Other comprehensive loss	**(3)**	–
Total comprehensive income	**$ 18,819**	$ 16,279

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(in thousands)

For the year ended December 31	2007	2006
Accumulated other comprehensive income, beginning of year	**$ –**	$ –
Change in accounting policy *(Note 3)*	**(86)**	–
Other comprehensive loss	**(3)**	–
Accumulated other comprehensive loss, end of year	**$ (89)**	$ –

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

For the year ended December 31	2007	2006
Operating activities		
Net income	$ 18,822	$ 16,279
Non-cash items included in income:		
Depreciation	4,634	4,611
Equity investment income *(Note 5)*	(7,335)	(8,449)
Other	129	105
Net change in non-cash working capital *(Note 13)*	554	(2,953)
Cash provided by operating activities	16,804	9,593
Investing activities		
Property, plant and equipment	(4,555)	(20,051)
Proceeds from sale of property, plant and equipment	–	6,008
Proceeds from lease payments	5,760	3,734
Prepaid expense	–	16,154
Equity investment distributions *(Note 5)*	8,910	4,800
Net change in non-cash working capital *(Note 13)*	(2,535)	(32,567)
Cash provided by (used in) investing activities	7,580	(21,922)
Financing activities		
Proceeds from short-term debt from SaskPower	–	13,676
Repayment of short-term debt from SaskPower	(8,519)	(4,088)
Repayment of non-recourse long-term debt	(3,080)	(2,780)
Dividends paid	(16,300)	–
Cash (used in) provided by financing activities	(27,899)	6,808
Decrease in cash	(3,515)	(5,521)
Cash and cash equivalents, beginning of year	25,665	31,186
Cash and cash equivalents, end of year	$ 22,150	$ 25,665
Supplemental information:		
Cash paid for interest	$ 17,903	$ 12,475
Cash paid for taxes	661	2,073

See accompanying notes

1. STATUS OF THE CORPORATION

SaskPower International Inc. (the Corporation), a wholly-owned subsidiary of Saskatchewan Power Corporation (SaskPower), was incorporated pursuant to *The Business Corporations Act (Saskatchewan)* effective September 15, 1994, and was registered in the Province of Alberta on September 10, 1999. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of SaskPower.

The Corporation, as a participant in the Cory Cogeneration Station Joint Venture, receives all electricity sales revenue from SaskPower. The Corporation, as owner of the Centennial Wind Power Facility, receives all finance income revenue through a direct financing lease with SaskPower. Electricity sales, finance income and other revenues provide approximately 73% (76% in 2006) of total revenues of the Corporation. SaskPower is also the Corporation's sole supplier of flyash.

As a subsidiary of a provincial Crown corporation, the Corporation is not subject to federal income tax, provincial income tax or federal large corporations tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered significant:

(a) Use of estimates

The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Significant areas requiring the use of management estimates are described in the following summary of significant accounting policies. Actual results could differ from those estimates, which may impact the actual results reported in future periods.

(b) Joint ventures

The Corporation accounts for its joint venture interests using the proportionate consolidation method.

(c) Equity investment

The Corporation accounts for investments over which it exerts significant influence using the equity method. The investment is initially recorded at cost and the carrying value adjusted thereafter to include the Corporation's proportionate share of post acquisition earnings of the investment and cash distributions.

(d) Revenue recognition

Electricity and flyash sales revenue is recognized upon delivery to the customer.

The Corporation derives finance income from a direct financing lease with SaskPower through the Power Purchase Agreement associated with the Centennial Wind Power Facility. The investment in lease recognized at the inception of the lease is the total minimum lease payments to be received over the term of the lease. Deferred finance income, effectively the difference between the aggregate total of the expected future lease payments (minimum lease payments receivable) and the carrying value of the asset being leased, is deferred and taken into income over the lease term to produce a constant rate of return on the investment in the lease.

Wind power production incentive revenue from the Government of Canada is recognized as eligible electricity is generated at the Centennial Wind Power Facility.

(e) Foreign currency translation

Revenues and expenditures resulting from transactions in foreign currencies are translated to Canadian dollars at the exchange rates in effect at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate in effect on the balance sheet date. Any resulting foreign currency translation gains and losses are included in the consolidated statement of income and retained earnings in the current period.

(f) Cash and cash equivalents

Cash and cash equivalents includes short-term investments made by SaskPower on the Corporation's behalf that have a maturity date of 90 days or less from the date of acquisition. These investments are carried at fair value.

(g) Property, plant and equipment

Property, plant and equipment is recorded at original cost and includes material, direct labour, overhead costs and interest during construction. Assets under construction are recorded as construct on in progress until they are operational and available for use, at which time they are transferred to property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated service life of the related asset. The estimated service life of cogeneration assets is 30 years. Depreciation expense also includes the gain or loss on both the complete and partial disposal of assets as well as accretion expense on asset retirement obligation as discussed in *Note 2(i)*.

(h) Asset impairment

The Corporation evaluates its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Factors, which could indicate an impairment exists, include significant changes in the company's strategy or underperformance of assets relative to projected future operating results. An impairment is recognized when the carrying amount of an asset exceeds the undiscounted projected future net cash flows expected from its use and disposal. It is measured as the amount by which the carrying amount of the asset exceeds its fair value. As at December 31, 2007, the Corporation determined that there was no impairment of value to its long-lived assets and therefore no write down was required.

(i) Asset retirement obligation

The Corporation recognizes asset retirement obligations in the period they are incurred if a reasonable estimate of fair value (net present value) can be determined. The Corporation recognizes asset retirement obligations to decommission its cogeneration facilities in the period in which the facilities are commissioned.

The fair value of the estimated asset retirement costs is recorded as a liability with an offsetting asset capitalized and included as part of property, plant and equipment. The asset retirement obligations are increased annually for the passage of time by calculating accretion (interest) on the liability. The accretion expense is calculated using an interest rate that equates to a risk-free interest rate adjusted for the credit standing of the Corporation and is included with depreciation expense. The offsetting capitalized asset retirement costs are depreciated over the estimated useful life of the related asset.

The calculations of fair value are based on detailed studies that take into account various assumptions regarding the anticipated future cash flows including the method and timing of decommissioning and estimates of future inflation. Asset retirement obligations are periodically reviewed and any changes are recognized as an increase or decrease in the carrying amount of the liability for the asset retirement obligation and the related asset retirement cost.

(j) Financial instruments

The Corporation classifies its financial instruments into one of the following categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale; and other liabilities *(Note 3)*. All financial instruments are measured at fair value on initial recognition and recorded on the consolidated statement of financial position. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading instruments, in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

Held-for-trading financial assets and liabilities are subsequently measured at fair value, with changes in fair value recognized in the consolidated statement of income in the line item to which the financial instrument is related. Available-for-sale financial assets are subsequently measured at fair value, with changes in fair value recognized as other comprehensive income. Financial instruments classified as held-to-maturity; loans and receivables; and other liabilities are subsequently measured at amortized cost using the effective interest rate method.

Derivative financial instruments assets and liabilities are classified as held-for-trading and recorded at fair value on the consolidated statement of financial position on the trade date. The Corporation has chosen to designate its derivative financial instruments (interest rate swaps) as a hedge for accounting purposes. As such, the change in the market value (gain or loss) of the derivative is temporarily recorded as other comprehensive income. The gain or loss is reclassified to net income in the period that the derivative is settled. The effectiveness of the interest rate swap in offsetting the change in cash flows of the hedged item is assessed on a quarterly basis. Any hedge ineffectiveness is recorded in current year net income. Payments or receipts on the swap are recognized concurrently with, and in the same financial category as, the hedged items.

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of the interest rate swap is calculated using prevailing market rates and a zero coupon discounted cash flow analysis.

For transitional purposes, the Corporation has elected to record embedded derivatives only for contracts or financial instruments entered into or modified after January 1, 2003. As at December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives that are required to be separately valued *(Note 12)*.

(k) Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income. Defined benefit pension plan benefits are provided by SaskPower to eligible employees.

The Corporation provides defined contribution and defined benefit severance plans for substantially all employees. The Corporation's obligations are limited to making regular contributions to SaskPower in respect of severance plan benefits.

The Corporation provides a supplementary superannuation plan for certain management employees who elect to forego their entitlement to banked days off. The Corporation's current period expense is limited to yearly notional contributions to the plan based upon the employee's salary and an amount allocated for interest on the employee's plan balance.

(l) Future accounting policy changes

Financial instruments – disclosure and presentation
In December 2006, the Accounting Standards Board (AcSB) issued two new Canadian Institute of Chartered Accountants (CICA) handbook sections, which expand the disclosure requirements on financial instruments: Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation." These sections replace Section 3861, "Financial Instruments – Disclosure and Presentation." The Corporation will be adopting these new sections effective January 1, 2008. The impact of these new standards on the Corporation's financial statements is currently being assessed.

Capital disclosures
In December 2006, the AcSB also issued Section 1535, "Capital Disclosures." This standard required disclosure regarding what the Corporation defines as capital and its objectives, policy and processes for managing capital. This section becomes mandatory for adoption effective January 1, 2008. The impact of this new standard on the Corporation's financial statements is currently being assessed.

Inventories
In June 2007, the AcSB issued Section 3031, "Inventories," which converges Canadian accounting for inventories with International Financial Reporting Standards (IFRS). This section becomes mandatory for adoption effective January 1, 2008. This standard is not expected to have a material effect on the Corporation's financial statements.

International financial reporting standards
In 2006, the AcSB adopted its Strategic Plan, which includes a decision to converge Canadian accounting standards with IFRS. The AcSB has indicated that Canadian companies will need to begin reporting under IFRS by the first quarter of 2011 with appropriate comparative data from the prior year. The impact of these new standards on the Corporation's financial statements is currently being assessed.

3. CHANGE IN ACCOUNTING POLICY (in thousands)

Financial instruments
Effective January 1, 2007, SaskPower International adopted the new CICA Section 1530, "Comprehensive Income;" Section 3251, "Equity;" Section 3855, "Financial Instruments – Recognition and Measurement;" Section 3861, "Financial Instruments – Disclosure and Presentation;" and Section 3865, "Hedges." The following are the impacts of implementing these new standards in 2007.

SaskPower International has classified its financial instruments into one of the following categories: *held-for-trading*; *held-to-maturity*; *loans and receivables*; *available-for-sale*; and *other liabilities*.

Derivative financial instruments assets and liabilities are classified as *held-for-trading* and recorded at fair value on the consolidated statement of financial position. The change in the market value (gain or loss) of the derivatives is recorded in net income and classified with the revenue/expense category to which they relate unless the derivative is designated as a hedge for accounting purposes. If the derivative is designated as a hedge for accounting purposes, the gain or loss is temporarily recorded as other comprehensive income. The gain or loss will be reclassified into net income in the period that the derivative financial instrument is settled.

The non-recourse long-term debt has been classified as *other liabilities* and recorded at amortized cost. As such, the related deferred financing charges have been reclassified as part of the carrying value of the non-recourse long-term debt and are being amortized using the effective interest rate method.

Cash and cash equivalents are classified as *held-for-trading* and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are classified as *loans and receivables*. Accounts payable and accrued liabilities and short-term debt from SaskPower are classified as *other liabilities*.

SaskPower International does not have any financial instruments classified as *held-to-maturity* or *available-for-sale* either upon adoption of the new standards on January 1, 2007 or at December 31, 2007.

Upon the adoption of the new standards, the impact of applying this change in accounting policy effective January 1, 2007, was as follows:

Adjustment to opening retained earnings as at January 1, 2007:

Financial statement category	Description	Increase/(decrease)
Equity investment	- effective interest rate method adjustment	$ (136)
Total assets		$ (136)
Interest rate swap	- market value adjustment on cash flow hedge	$ 86
Non-recourse long-term debt	- effective interest rate method adjustment	91
Retained earnings, beginning of year	- effective interest rate method adjustment	(227)
Accumulated other comprehensive income, beginning of year	- market value adjustment on cash flow hedge	(86)
Total liabilities and equity		$ (136)

Impact of reclassifications as at January 1, 2007:

Financial statement category	Description	Increase/(decrease)
Other assets	- deferred finance charges	$ (1,802)
Total assets		$ (1,802)
Non-recourse long-term debt	- deferred finance charges	$ (1,802)
Total liabilities and equity		$ (1,802)

In addition, the change in accounting policy has decreased net income in 2007 by $24 as a result of a $24 increase in finance charges.

Accounting changes

Effective January 1, 2007, the Corporation adopted the new CICA Section 1506, "Accounting Changes," in accordance with the transitional provisions of the section. The new standard allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information. New disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 had no material impact on these consolidated financial statements.

4. PROPERTY, PLANT AND EQUIPMENT (in thousands)

	2007	2006
Cogeneration plant (Cory Cogeneration Station)	**$ 139,314**	$ 138,596
Accumulated depreciation	**(22,536)**	(17,943)
Net book value	**$ 116,778**	$ 120,653

5. EQUITY INVESTMENT (in thousands)

In 2001, the Corporation acquired an ownership interest in MRM Cogeneration Station. The 172-megawatt (MW) natural gas-fired cogeneration plant is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The cogeneration plant commenced commercial operations January 2003.

Ownership interests in the MRM Cogeneration Station are as follows:

ATCO Power Canada Ltd.	56%
SaskPower International Inc.	30%
ATCO Resources Ltd.	14%

Certain accounting policies used in the preparation of the financial statements of MRM Cogeneration Station differ from those used by the Corporation, and therefore, adjustments have been made to the reported income of the investee to maintain reporting consistency.

		2007		2006
Equity investment, beginning of the year	$	**31,814**	$	28,165
Change in accounting policy *(Note 3)*		**(136)**		–
Equity investment income		**7,335**		8,449
Equity investment other comprehensive loss		**(38)**		–
Equity investment distributions		**(8,910)**		(4,800)
Equity investment, end of year	$	**30,065**	$	31,814

6. NET INVESTMENT IN LEASE (in thousands)

The net investment in lease reflects the recording of the Centennial Wind Power Facility (CWPF) Interim Power Purchase Agreement (PPA) between the Corporation and SaskPower as a direct financing lease. The annual minimum lease payments receivable are subject to the variability of the wind generation, as the PPA determines the lease payments based on a fixed rate per megawatt hour generated.

The Corporation's net investment in lease at year end includes the following:

		2007		2006
Minimum lease payments receivable	$	**381,020**	$	396,339
Deferred finance income		**(153,818)**		(167,214)
		227,202		229,125
Less current portion of net investment in lease		**5,286**		5,034
Net investment in lease	$	**221,916**	$	224,091

During the year, additions to the Centennial Wind Power Facility's property, plant and equipment, in the amount of $3,837 ($232,859 in 2006), were transferred to the direct financing lease with SaskPower.

During 2007, the Corporation recorded $13,396 ($10,915 in 2006) of finance income from SaskPower.

Minimum lease payments receivable

As at December 31, 2007, the expected lease payments to be received for the next five years are as follows:

	2008	2009	2010	2011	2012
Lease payments receivable	$ 18,429	$ 18,429	$ 18,429	$ 18,429	$ 18,429

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (in thousands)

	2007	2006
Accrued interest on short-term debt from SaskPower	$ 2,803	$ 2,910
Accounts payable and accrued liabilities	2,600	1,784
Capital payables	1,169	3,711
Contractors' holdbacks	102	103
Accounts payable and accrued liabilities	$ 6,674	$ 8,508

8. SHORT-TERM DEBT FROM SASKPOWER (in thousands)

In October 2004, the Corporation entered into an interim loan advance agreement, payable on demand, for the issue of up to $250,300 at the rate of 8.7% per annum. As of March 15, 2006, the Corporation entered into an amended and restated loan advance agreement, payable on demand, for the issue of up to $243,840 at the rate of 5.0% per annum. The debt is secured by a mortgage and charge upon all of the Corporation's real and personal property. A permanent financing arrangement will be determined in 2008.

9. NON-RECOURSE LONG-TERM DEBT (in thousands)

Debentures payable are based on the following terms and rates:

	Effective interest rate	2007	2006
Notes at 7.586%, repayable in quarterly payments ending December 31, 2025	7.872%	$ 44,343	$ 45,622
Notes at 7.601%, repayable in quarterly payments ending June 30, 2026	7.880%	39,417	40,468
Term loan based on Banker's Acceptance rates plus a margin, ranging from 1.0% to 1.375%, repayable in quarterly payments ending December 31, 2011	Floating	3,000	3,750
		86,760	89,840
Less deferred finance charges		1,582	–
		85,178	89,840
Less current portion of non-recourse long-term debt		3,380	3,080
Non-recourse long-term debt		$ 81,798	$ 86,760

These debentures are issued in the name of Cory Cogeneration Funding Corporation. The Corporation also has $2.5 million available under an Operating Facility. The notes and term loan are secured by a debenture on each Owners' ownership interest in the Project's assets, an assignment of the Project's bank accounts and an assignment of all the Project Agreements.

Maturities

As at December 31, 2007, scheduled debt retirement requirements for the next five years are as follows:

	2008	2009	2010	2011	2012
Non-recourse long-term debt	$ 3,380	$ 3,680	$ 3,980	$ 4,280	$ 3,830

10. ASSET RETIREMENT OBLIGATION (in thousands)

		2007		2006
Asset retirement obligation, beginning of year	**$**	**677**	$	638
Accretion expense		**41**		39
Asset retirement obligation, end of year	**$**	**718**	$	677

SaskPower International estimates the undiscounted amount of cash flows required to settle the asset retirement obligation is approximately $3,108, which will be incurred in 2032. A credit-adjusted risk-free rate of 6.04% was used to calculate the carrying value of the asset retirement obligation. No funds have been set aside by the Corporation to settle the asset retirement obligation.

11. SHARE CAPITAL (in thousands)

	#	2007	#	2006
Authorized				
Unlimited Class A non-cumulative, voting common shares				
Issued				
Class A				
Issued and outstanding, beginning of year	**70,117**	**$ 70,117**	70,117	$ 70,117
Issued during the year for cash	**–**	**–**	–	–
Issued and outstanding, end of year	**70,117**	**$ 70,117**	70,117	$ 70,117

All shares are held by the parent corporation, SaskPower.

12. FINANCIAL RISK MANAGEMENT (in thousands)

By virtue of its operations, the Corporation is exposed to changes in interest rates, foreign currency exchange rates and credit risks.

Interest rate risk

A derivative financial instrument (floating to fixed rate interest swap) is utilized by the Cory Cogeneration Station Joint Venture to manage the risk arising from fluctuations in interest rates on the Cost Overrun Facility. The instrument is used only to manage risk and not for trading purposes.

Foreign exchange rate risk

The Corporation's exposure to changes in foreign currency exchange rates is not considered significant.

Credit risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The Corporation's credit risk is minimized by dealing with large, credit-worthy counterparties.

Financial instruments

The following summarizes the carrying amounts and fair values of the Corporation's financial instruments at year end:

At December 31		2007		2006	
		Asset (liability)		Asset (liability)	
Financial instrument	**Classification**	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets					
Cash and cash equivalents	HFT[1]	**$ 22,150**	**$ 22,150**	$ 25,665	$ 25,665
Accounts receivable	L&R[2]	**8,496**	**8,496**	8,308	8,308
Financial liabilities					
Accounts payable and accrued liabilities	OL[3]	**$ (6,674)**	**$ (6,674)**	$ (8,508)	$ (8,508)
Short-term debt from SaskPower	OL[3]	**(222,392)**	**(222,392)**	(230,911)	(230,911)
Interest rate swap	HFT[1]	**(51)**	**(51)**	–	(86)
Non-recourse long-term debt	OL[3]	**(86,760)**	**(97,334)**	(89,840)	(101,902)

1. HFT – held-for-trading.
2. L&R – loans and receivables.
3. OL – other liabilities.
4. The Corporation has not classified any of its financial instruments as at December 31, 2007, as either held-to-maturity or available-for-sale.

Fair values are determined as follows:

(a) Non-recourse long-term debt instruments are valued at year end market prices for similar instruments;

(b) Interest rate swap is valued at closing year end market rates and a zero coupon discounted cash flow analysis; and

(c) Other financial instruments – including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and short-term debt from SaskPower – approximate fair value due to the short period to maturity.

13. NET CHANGE IN NON-CASH WORKING CAPITAL (in thousands)

	2007	2006
Operating activities		
Accounts receivable	**$ (195)**	$ (4,978)
Other current assets	**41**	(117)
Accounts payable and accrued liabilities	**708**	2,142
	$ 554	$ (2,953)
Investing activities		
Accounts receivable	**$ 7**	$ 44
Accounts payable and accrued liabilities	**(2,542)**	(32,611)
	$ (2,535)	$ (32,567)

14. JOINT VENTURES (in thousands)

(a) The Corporation holds a 50% interest in an unincorporated joint venture with ATCO Power Canada Ltd. The joint venture owns and operates a 228-MW natural gas-fired cogeneration plant (Cory Cogeneration Station) near Saskatoon, Saskatchewan.

(b) The Corporation holds a 50% interest in Cory Cogeneration Funding Corporation (CCFC). CCFC was incorporated pursuant to *The Business Corporations Act (Saskatchewan)* effective November 19, 1999, and was registered with the Province of Alberta on December 18, 2000.

CCFC is a special purpose company established by the Corporation and ATCO Power Canada Ltd. (the Owners) to borrow long-term non-recourse debt to finance the Cory Cogeneration Station. CCFC acts as agent for the Owners, by receiving revenues, disbursing costs, including debt service and distributing proceeds to the Owners.

(c) The Corporation's interest in joint ventures is summarized below:

		2007		2006
Statement of income				
Revenue	**$**	**18,539**	$	18,573
Operating, maintenance and administration		**(5,134)**		(5,784)
Depreciation		**(4,612)**		(4,589)
Finance charges		**(6,730)**		(6,947)
Income from joint ventures	**$**	**2,063**	$	1,253
Statement of financial position				
Current assets	**$**	**3,534**	$	3,294
Property, plant and equipment		**116,235**		120,087
Deferred finance charges		**–**		1,802
Current liabilities		**(4,594)**		(3,953)
Non-recourse long-term debt		**(81,798)**		(86,760)
Asset retirement obligation		**(718)**		(677)
Investment in joint ventures	**$**	**32,659**	$	33,793
Statement of cash flows				
Operating activities	**$**	**5,479**	$	6,058
Investing activities		**(718)**		(962)
Financing activities		**(6,136)**		(4,780)
(Decrease) increase in cash	**$**	**(1,375)**	$	316

Current assets include cash of $71 ($1,446 in 2006), which is only available for use within the joint ventures.

15. RELATED PARTY TRANSACTIONS (in thousands)

Included in these financial statements are numerous related party transactions, substantially all of which are with SaskPower. The Corporation also has a variety of other transactions with joint ventures and various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year end are as follows:

		2007		2006
Revenue	– electricity sales	**$ 18,539**	$	18,573
	– finance income	**13,396**		10,915
	– other	**188**		1
Cost of sales – flyash		**2,518**		2,317
Operating, maintenance and administration		**(1,336)**		(956)
Finance charges		**11,332**		9,348
Saskatchewan capital tax		**790**		1,157
Accounts receivable		**5,454**		4,659
Property, plant and equipment		**3,556**		2,084
Net investment in lease		**227,202**		229,125
Accounts payable and accrued liabilities		**3,098**		3,063
Short-term debt from SaskPower		**222,392**		230,911
Dividends payable		**17,000**		16,300

In addition, the Corporation pays Saskatchewan provincial sales tax on all its taxable purchases to the Saskatchewan Ministry of Finance. Taxes paid are recorded as part of the cost of those purchases.

As per Cory Cogeneration Station Joint Venture Project Agreements, gas is supplied at no cost by SaskPower in return for power generated.

SaskPower provides certain management services to the Corporation for no consideration.

16. EMPLOYEES' FUTURE BENEFITS (in thousands)

The Corporation contributed $201 ($179 in 2006) to the plans described in *Note 2(k)*.

17. COMMITMENTS AND CONTINGENCIES (in thousands)

(a) As at December 31, 2007, the Corporation has committed to the construction of the Centennial Wind Power Facility at an estimated cost to complete of $237,708. Project costs incurred to date are $236,696 ($232,859 in 2006).

In accordance with the terms of the Turbine Supply and Installation Agreement, the Contractor has taken a security interest in all of the property as supplied by the Contractor during the construction of the Facility.

(b) The Corporation has issued a promissory note in the amount of $4,919 as acceptable credit support for project lenders in respect of the Debt Service Coverage Ratio requirements for Cory Cogeneration Station.

(c) The Corporation has other various legal matters pending. In the opinion of management these matters will not have a material effect on SaskPower International's consolidated financial position or results of operations.

18. COMPARATIVE FIGURES

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation.

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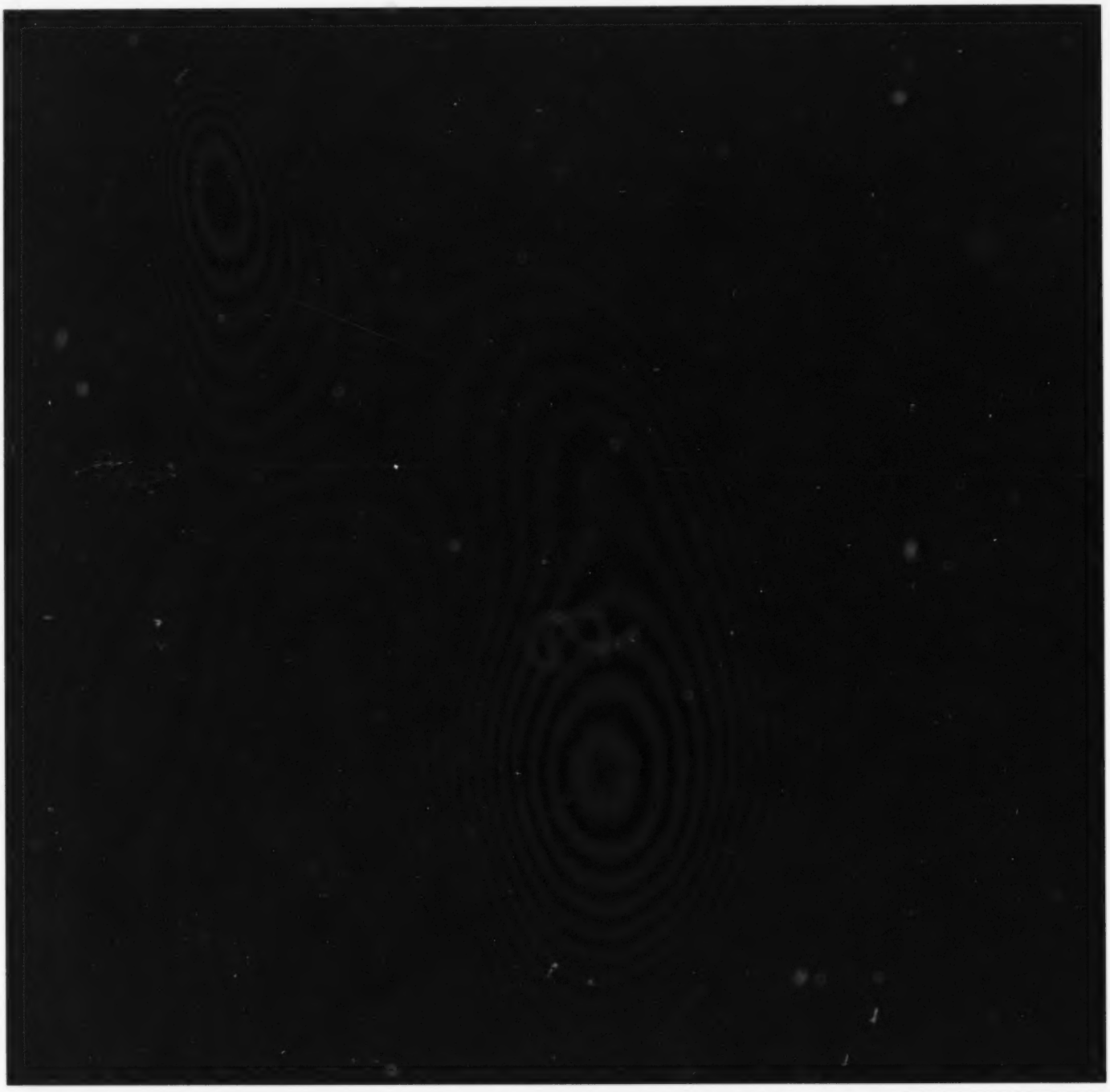

SaskPower International

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